

Association for Enterprise Opportunities
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About Microenterprise

Microenterprise Defined

AEO and its members have defined microenterprise as a business with five or fewer employees requiring \$35,000* or less in start-up capital. AEO estimates that there are over 20 million U.S. microenterprises, which represent 17% of all private employment in the U.S. In addition, microenterprise represents a path from poverty to financial security for many low-income individuals.

* Loans of \$35,000 and under are known as microloans.

Microenterprise Development Industry

The estimated 600 microenterprise development organizations (MDOs) operating in the U.S. exist to support disadvantaged entrepreneurs as they start or expand their businesses. MDOs can increase the chance of business success by bridging the gap between disadvantaged individuals and the tools they need to start and grow successful businesses. With the help of AEO services, MDOs offer business training, technical assistance, access to capital, and other services to entrepreneurs to assist them in realizing their dream of business ownership. For many low-income entrepreneurs MDOs represent the only opportunity to access the capital and business tools necessary for business start-up.

Key Elements of Microenterprise Development

AEO has learned that comprehensive microenterprise development programming consists of four key elements: Training and Technical Assistance; Credit and Access to Credit; Access to Markets; and Economic Literacy and Asset Development.

Training and Technical Assistance

Microenterprise development practitioners agree that the quality and quantity of training and technical assistance provided to an entrepreneur can often be the biggest factor in whether the entrepreneur's business succeeds or fails. Microenterprise trainers have the difficult task of teaching complex business skills to entrepreneurs with little formal training, limited time to engage in learning, and various levels of education.

Though training opportunities vary from organization to organization, typical microenterprise development training topics include: business plan development; integrating technology; bookkeeping and business management; and marketing. Training is offered through various settings including: classroom type lectures; one-on-one counseling; peer networking; and mentoring programs.

Credit and Access to Credit

A significant challenge for many microentrepreneurs is access to capital. Traditional lending sources do not find it profitable to lend \$35,000 or less and choose not to. In addition many low-income individuals looking for a path out of poverty through self-employment, have poor (or no) credit history with no hope of receiving a bank loan.

Some microenterprise development organizations (MDOs) offer credit directly from an in-house loan fund, which typically lend amounts from \$100 to \$35,000 and when granting loan requests look at other factors in addition to the entrepreneur's credit. Other MDOs partner with other organizations or institutions in the community to provide access to credit. Examples of these type of relationships include partnerships with banks, credit unions, or other financial intermediaries that offer loans and various other financial products.

Access to Markets

The goal of microenterprise development programs is not just to create marginal businesses, but to create successful ones. To help microentrepreneurs increase sales and profitability, many programs create specialized networks of their clients' businesses, especially in industries where microenterprises are flourishing. These industries, also referred to as sectors, include: specialty foods; jewelry; arts, crafts and gifts; clothing and textiles; furniture; computer technology; daycare; and environmental products and services such as recycling.

Access to market services include: sophisticated training on marketing and sales concepts; development and distribution of joint catalogs; Internet access and e-commerce; trade shows; and business incubators.

Economic Literacy and Asset Development

AEO has learned that low-income entrepreneurs can greatly benefit from increase knowledge of the benefits of banking and saving principals. Many entrepreneurs need to learn the importance of establishing checking accounts and savings accounts (i.e. Individual Development Accounts); the importance of establishing a credit rating, and in many instances, learning about credit rehabilitation. In addition many entrepreneurs need training in tax laws and regulatory issues, and sound accounting principles and types of insurance.

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